

NORTH AMERICAN COMBUSTION TECHNOLOGY CORPORATION

Annual Report for the Year Ended November 30, 1980

AR17

File



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CORPORATE PROFILE

North American Combustion Technology Corporation is a Canadian company, established in 1979, which holds exclusive rights under patents owned by The Rolfite Company to market, sell and distribute fuel additive products for the automotive after-market in Canada, the United States and other countries. Such rights also extend to a patented home heating fuel additive for residential application.

The Company is headquartered in Toronto, Canada. Sales operations in the United States are conducted through its wholly-owned subsidiary, North American Combustion Technology Corporation U.S.A., (COMTEC) situated in New York, while sales in Canada are handled through its distributor, Sparktec Engine Performance Additives Inc. located in Toronto.

In September 1980, the Company amalgamated with Mediacorp Technology Limited and 452956 Ontario Inc., retaining the name of North American Combustion Technology Corporation. Shares of the newly-formed company trade over-the-counter in Toronto.

The Company's proven line of combustion catalysts, designed to improve the combustion efficiency and reduce the emissions of gasoline and diesel fuels (and home heating oil) were developed and patented by The Rolfite Company of Stamford, Connecticut. Rolfite, a high technology company in operation in the United States since the 1960's, sells combustion treatment products to major public utilities, industrial plants and shipping fleets around the world.

REPORT TO SHAREHOLDERS



H. Vance White

For North American Combustion Technology Corporation, fiscal 1980 was a year of crucial development which set the stage for future growth opportunities offered through our automotive and home heating oil products. Although the past year proved to be disappointing from a sales viewpoint, it was a period of achievement in many other areas.

The Company's limited net sales of \$71,901 and net loss of \$595,001, for this period, reflect the high start-up costs essential to the formation of a new company in an innovative and competitive field. The majority of company expenditures are attributed to the extensive and exhaustive testing of our products, the design of packaging and delivery systems and the development of organizational strengths imperative to our success in the marketplace.

The Company's limited sales results, achieved through the continuing efforts of our wholly-owned U.S. subsidiary, North American Combustion Technology Corporation U.S.A., (COMTEC), were derived from the sale of our gasoline and diesel treatment products, XG-2™ and The Improver® respectively, to existing fleets of trucks, vans, limousines and cars. Although sales and promotional efforts in this market segment were



Richard L. Matthews

limited in 1980, due to the priority of establishing the Company within the consumer market, fleet-user confidence in the quality and performance of our products, as evidenced by continuous years of use, was most encouraging. We are hopeful that greater sales emphasis can be brought to bear in the fleet market in 1981.

In keeping with our policy of continued expansion, considerable time, money and effort have been expended, during the year, towards the development of PROPEL™, a specially designed and packaged consumer version of XG-2, for introduction to the highly-competitive retail market in 1981. While this vast and rapidly expanding market segment is difficult to penetrate, we firmly believe it offers tremendous potential for the Company's products. Although the recent influx of fuel additive products within the consumer market has evoked a certain lack of product credibility, we are confident PROPEL's unique patented formula and performance attributes will command a measure of confidence equal to its fleet counterpart XG-2.

Initial capital for North American Combustion Technology Corporation was raised in December 1979. These funds were directed towards the execution of the Com-

pany's extensive test programs, involving fleet and laboratory dynamometer test procedures, which conformed to National Research Council's test requirements in Canada and the Environmental Protection Agency standards in the United States.

In January 1980, the name of the company was changed from Auto-Mark International Industries Inc. to North American Combustion Technology Corporation.

In September 1980, North American Combustion Technology Corporation amalgamated with Medicorp Technology Limited and 452956 Ontario Inc. This amalgamation, effected through an exchange of stock, enabled public trading of the Company's shares in the over-the-counter market in Toronto and provided further financing. The Company raised an additional \$1,200,000 in capital, in November/December 1980, through a private placement of 600,000 shares of stock (plus warrants entitling the holders to purchase an additional 300,000 shares).

The last in a series of dynamometer tests was initiated by the Company, in October, and performed by Satra Automotive Emissions Laboratory, Inc. in Newark, New Jersey. The final results, which proved to be very successful and are discussed in further detail elsewhere in this Report, demonstrated that PROPEL/XG-2 would significantly increase gasoline mileage under stringent, demanding and controlled laboratory dynamometer test procedures required by the E.P.A. These test results have been analyzed and forwarded, along with other test data, to E.P.A. for their analysis and review.

In early November, PROPEL was unveiled to the wholesale and retail trade at the annual major trade show of the Automotive Parts & Accessories Association in

Atlanta, Georgia. PROPEL's reception at this show was excellent. Many major buyers indicated great enthusiasm for the product and expressed a definite intent to purchase. Since then, the Company has successfully initiated the introduction of PROPEL into test markets in the northeastern and northwestern states of the United States. The product is presently being sold and shipped into these markets.

Upon receipt of successful test results, expansion of PROPEL throughout the balance of the United States will be scheduled for the latter part of 1981. The Company is currently considering plans to raise between \$2,000,000 and \$3,000,000 in additional capital to help finance this anticipated extensive expansion. Proceeds of this financing will be directed towards finished product inventory, introductory advertising and sales promotion efforts.

The introduction of PROPEL in Canada, through Sparktec, is contemplated for late 1981. It is felt that the Canadian launch will be in an excellent position, at that time, to capitalize on some of the spillover advertising to be conducted in the United States starting this Spring.

The sales and profit potential for PROPEL is most encouraging in light of escalating gasoline prices and increased consumer demand for vehicle efficiency and improved fuel consumption. Although initial company efforts are geared towards establishing a strong and competitive position in Canada and the United States, we are also in the process of evaluating the products' potential in European, Latin American and Far Eastern markets. The exceedingly high price of gasoline, without exception, in these countries as compared to gas prices in North America, presents an even greater market potential for the Company's products.

Fiscal 1981, we believe, will be an outstanding year for the substantial growth and further development of the Company. Our achievements, to date, place North American Combustion Technology Corporation in an excellent position to develop already-established growth channels and pursue new market opportunities in North America and abroad. While, in all likelihood, there will be problems, we are confident due to the Company's organizational strengths and high calibre of products, North American Combustion Technology will be fully-equipped to meet such challenges. In 1981, we will continue to stress the testing and development of existing and new products and place greater emphasis on the strengthening of our organizations in Canada and the United States.

Currently, negotiations are underway to amalgamate North American Combustion Technology Corporation with Sparktec Engine Performance Additives Inc., our distributor in Canada. A section on Sparktec's activities is included within this Report to further acquaint you with their operations.

Additionally, since this is the Company's first Annual Report and many shareholders are perhaps not totally familiar with the Company and its products, we have taken the liberty of describing each of the Company's fuel additives, their application and effects in considerable detail. It is our hope this will give you a better understanding of the Company and its objectives and greater insight into the problems and opportunities ahead.

North American Combustion Technology's management was realigned in mid-1980 by the election of two new Directors and by the reorganization of the Company's administrative functions. Mr. D. Brawn and Mr. B.J. Burke resigned from the Board, for personal reasons, in August. In their

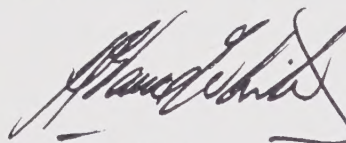
place, the Board appointed Mr. R. Bruce Briggs and Mr. Richard L. Matthews. Coincident with his appointment as Director, Mr. Matthews was elected President, succeeding Mr. M.J. Lawrence who assumed the position of Vice-President, Marketing.

Two new officers were elected at this time: Mr. S.J. Headford was appointed Secretary-Treasurer; Mr. D.J. MacDonald was appointed Vice-President, Sales. The Board takes this opportunity to welcome these new Directors and Officers and to thank the outgoing Directors for their contributions to the affairs of the Company.

In January 1981, we were saddened with the passing of Mr. B.J. Burke. Mr. Burke, one of the original founders of the Company, was a dedicated and highly valued associate. His presence, on a personal and professional level, and his significant contributions to the Company will be sorely missed.

On behalf of the Board of Directors, may we take this opportunity to thank our shareholders for their trust and loyal support during the Company's formative stage. Please be assured we will continue to do our utmost to justify this confidence.

Respectfully submitted,



H. Vance White,
Chairman of the Board



Richard L. Matthews
President and
Chief Executive Officer

March 30, 1981.

PRODUCTS

Automotive:

The Company's automotive products currently available in Canada and the United States include XG-2 (for gasoline engines) and The Improver (for diesel engines). Their distribution is directed towards specialist industrial fleets of trucks, buses, taxis, company-owned cars and off-the-road vehicles. Another product, PROPEL (for gasoline engines) will be launched in the United States, in early 1981. Unlike its predecessors, PROPEL is the consumer version of XG-2, specially developed and packaged for consumer vehicle use to be sold in retail outlets across the country.

These products are combustion catalysts based on unique nitrogenous manganese complexes for use as fuel additives and were developed over a number of years by Andrew T. Rolfe and patented in 1969. Mr. Rolfe was ably assisted in subsequent improvements by U.S. chemist Dr. Robert Smellie and Canadian engineer Dr. Thomas R. Boyce. These three outstanding scientists have had many years of extensive experience in engine combustion technology and will continue to work closely with North American Combustion Technology Corporation in the continuing development and improvement of our products.

XG-2/PROPEL and The Improver have undergone numerous generations of development and improvement, extensive laboratory testing and millions of miles of actual road usage. All are designed not only to improve the combustion efficiency of gasoline and diesel fuels, but also to offer collateral benefits to engines. They are totally compatible with methyl-hydrate and rust-retardant products. Further, they are safe to use, since they are non-flammable, non-hazardous, non-explosive and non-toxic.

XG-2 for gasoline engines.

XG-2 is a patented formula of fuel-blending and catalytic combustion-improving agents designed as a pyrochemical compound to improve combustion of gasoline. Its unique and proven manganese amine complex mixes completely with all grades of gasoline.

Unlike lubricant, antifreeze and detergent products, XG-2 works primarily in the combustion chamber resulting in significant fuel savings, improved engine performance and extended engine life. It is one of the most effective, yet safest, chemical formulas available in today's marketplace and is patented in seven countries.



Application and Effect

XG-2 is sold to fleets and other bulk users in 16-ounce, 32-ounce containers plus other bulk sizes including 55-gallon drums for use in cars, vans, trucks and other gasoline powered vehicles. It is added to automobile, truck and other gasoline fuel tanks in the amount of 1 ounce to 6.4 Imperial gallons (8 U.S. gallons) of fuel or in fuel holding tanks at the rate of 1 gallon per 1,000 gallons of fuel. It has self-dispersing properties, so it mixes quickly and thoroughly with the gasoline.

Its effectiveness is extensive. In the fuel tank, XG-2 increases the homogeneity of fuel, separates out water and emits a protective coating designed to prevent icing and inhibit rust.

In the fuel line and carburetor, it safely helps unseat deposits of carbon and dirt and, through constant use, helps prevent their reformation. Piston heads, cylinder walls, rings, ports and valves are cleaner and kept cleaner to help maintain peak engine performance. XG-2 also reduces or removes gums and varnishes from the fuel system and inhibits their recurrence resulting in cleaner carburetor jets and longer service life.

XG-2 in the combustion chamber provides atomic oxygen scavenging by components which produce oxides that catalyze reactions throughout the combustion cycle. This catalytic action enables fuel to burn more efficiently, reduces harmful hydrocarbons and emissions and increases horsepower potential, resulting in maximum fuel efficiency.

XG-2—a patented, fleet-tested formula of fuel blending and catalytic combustion-improving agents for use in gasoline engines.

Benefits

Extensive fleet and laboratory testing, over a period of ten years, has proven that continuous use of XG-2 results in:

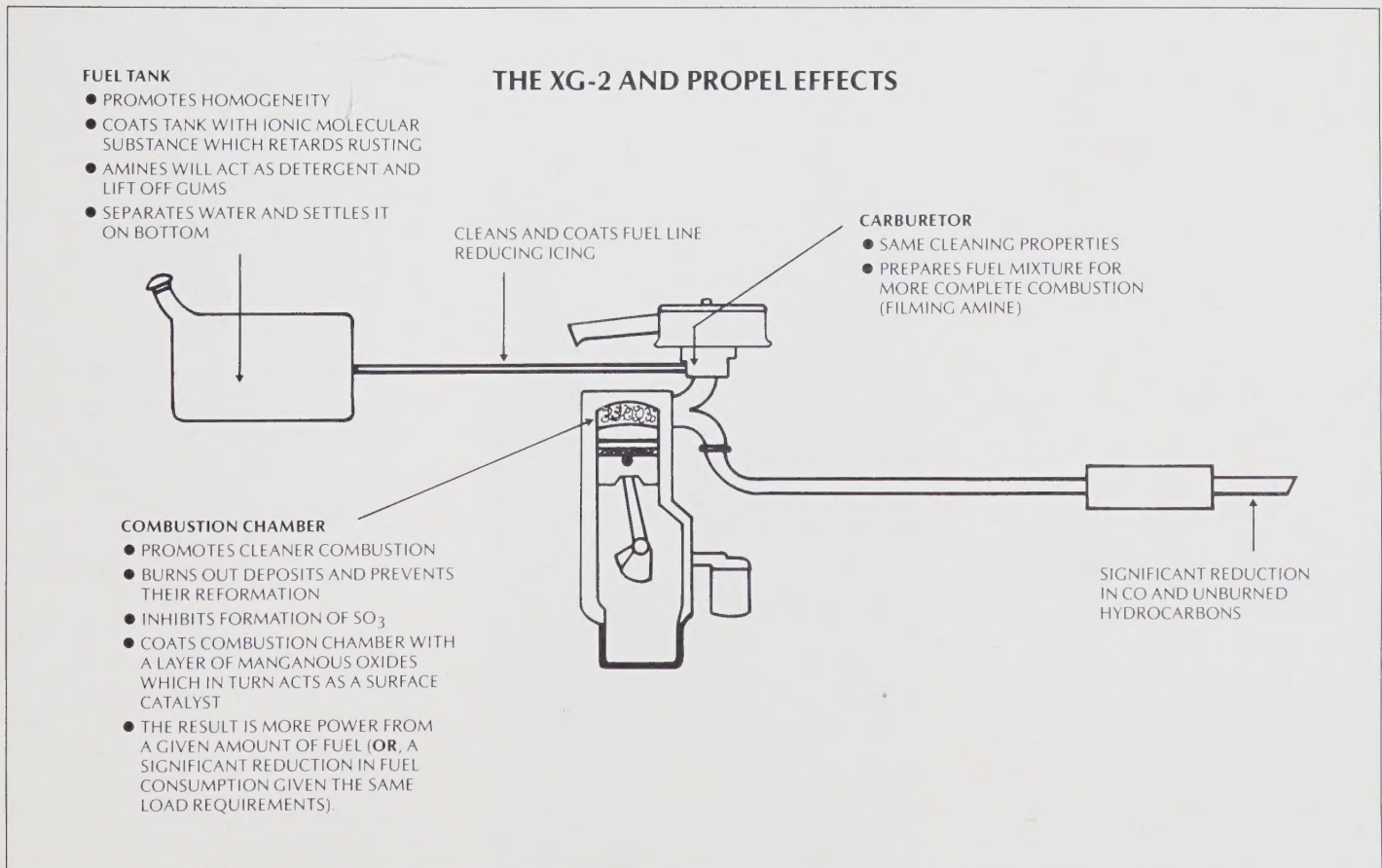
- significant fuel savings
- reduction in smoke and emissions
- reduction in engine wear.

PROPEL for gasoline engines

The Company's newest product is PROPEL, a patented combustion catalyst for gasoline, which has been specially designed and marketed in pre-measured tubes for consumer use. PROPEL was introduced to the U.S. wholesale and retail trade at the Automotive Parts & Accessories Association Trade Show in Atlanta, Georgia, in November 1980. The unveiling of



PROPEL — The Company's newest patented combustion catalyst for gasoline engines, specially designed and packaged for the consumer market.



this product met with strong and enthusiastic response. The initial sell-in to the U.S. trade in test markets in early 1981 has been gratifying, indicating that PROPEL will be well received on the market.

PROPEL, like its fleet counterpart, XG-2, is a proven, patented nitrogeneous manganese complex formulated to improve combustion of gasoline. Unlike XG-2, which is packaged in bulk sizes for fleet usage, PROPEL is packaged for consumer use in the United States in a convenient 1¾ fluid oz. high-density polyethylene tube and is available in single or 3-tube cartons. Marketing in Canada is anticipated in 1981. Developed specifically for the consumer market, PROPEL is a tested fuel additive which is expected to play an increasingly significant role in today's energy conservation-conscious marketplace.

Each tube of PROPEL will treat up to 14 U.S. gallons of gasoline (at the rate of 1 ounce to 8 gallons of fuel). Consumer usage is facilitated by its pre-measured packaging, designed for ease of use in pouring contents into gasoline tanks, including the special tanks with flaps for unleaded gasoline.

THE IMPROVER for diesel fuel

The Improver is a patented formula of fuel-blending and catalytic combustion-improving agents designed as a pyrochemical compound modified to improve combustion of diesel fuels. Unlike antifreeze, lubricant or detergent additives, The Improver's catalytic complex works throughout the total combustion process. It is a multi-purpose, oil-soluble chemical compound which blends completely with all diesel fuels. Fuel treated

with The Improver contains less than 4.5 ppm (parts per million) of manganese and results in no measurable contribution to emissions.

Application and Effects

As with XG-2, The Improver is sold primarily to fleets for use in trucks, vans and other diesel engines. It is added to fuel tanks of diesel-powered units in the amount of 1 ounce to 6.4 Imperial gallons (8 U.S. gallons) of fuel or to the fuel holding tanks/storage tanks, at the rate of 1 gallon per 1,000 gallons.

The Improver capitalizes on the relative inefficiency of the internal combustion engine and works in three ways. When added to diesel fuel, The Improver increases the homogeneity of light and heavy ends for more even burning and more complete combustion. Like

XG-2 it separates out water, sets up a protective coating and therefore helps to prevent icing and inhibits rust.

In fuel lines and injectors, The Improver safely helps unseat deposits of carbon, dirt and other elements contained in diesel fuels and helps prevent their recurrence. Piston heads, cylinder walls, rings, ports and valves are cleaned and kept cleaner to ensure maximum engine performance.

When The Improver-heated fuel enters the combustion chamber, a catalytic effect triggered by heat of compression and ignition occurs, producing manganous oxide which facilitates a faster, more complete burning of fuel. Better fuel utilization, in turn, results in a significant reduction in fuel consumption, a cleaner engine and less harmful hydrocarbons and emissions. Test results indicate that The Improver significantly reduces smoke after 500 miles of driving. Independent laboratory tests have also shown a 30% reduction in smoke at normal maximum engine power.

Benefits

Benefits reported by long-term fleet users and confirmed by laboratory reports indicate that The Improver results in:

- significant fuel savings
- significant reductions in smoke and emissions
- extended engine life
- fewer oil and filter changes
- improved horsepower.



The Improver — a patented, fleet-tested combustion catalyst specially developed for use in diesel engines.



North American Combustion Technology Corporation also holds exclusive rights for a product named BTU 18, a patented home-heating fuel extender for use in small oil burners in private homes and small residential dwellings.

BTU 18

Like its counterparts in the automotive segment, BTU 18 is a nitro-geneous manganese complex designed specifically for treatment of fuel oils to improve combustion. Completely soluble in hydrocarbon fuels, BTU 18 contains a proven metallic oxide which is known to be a particularly effective catalytic combustion improver and SO_3 inhibitor, plus amines which rapidly homogenize oil and improve atomization. It disperses uniformly in the fuel, lessens the formation of corrosive vanadium compounds in combustion in #5 and #6 oil, and effects significant fuel savings and collateral benefit advantages.

Application

BTU 18 is used in a ratio of 1 part to 1,000 parts of oil and is equally effective in Numbers 2, 4, 5 and 6 oil. It is distributed in 44 Imperial (55 U.S.) gallon drums as well as 32-ounce quart cans.

Benefits

- Improved combustion and reduced deposit accumulation
- Improved boiler efficiency and fuel savings
- Reduced boiler maintenance problems
- Elimination of filter congestion, burner fouling and tank sludge accumulations
- Elimination of the need for proportion or agitation equipment
- Safety in handling and storage.



BTU 18—The Company's patented nitro-geneous manganese home heating fuel extender.

Throughout the years, extensive product testing has been conducted on XG-2 and The Improver in Canada, the United States, France and the United Kingdom. The most frequently employed methods included independent laboratory dynamometer testing and proven in-use fleet applications which focused on specific categories such as fuel economy, power, emissions and engine wear. Documented results have been positive and are indicative of the products' outstanding performance ratings.

The Company's most recent test program, involving its gasoline additive PROPEL, was conducted in late 1980 under the direct supervision of Mr. Timothy Tierney, Technical Director of the Automotive Parts and Accessories Association (APAA) and performed by Satra Automotive Emissions Laboratory, Inc., an E.P.A. approved laboratory located in Newark, New Jersey. Test procedures, undertaken to substantiate North American Combustion Technology's packaging and advertising claims inherent to the Company's Spring consumer marketing campaign, were conducted on "perfect" condition 4, 6 and 8 cylinder passenger vehicles manufactured by Ford, General Motors and Chrysler. The tests, performed on laboratory dynamometers under extremely difficult test conditions and in accordance with established Environmental Protection Agency (E.P.A.) procedures, corroborated previous laboratory studies and actual fleet road usage test results. Gasoline mileage increases ranged between 2% and 11% (5% to 7% average) over and above the mileage achieved prior to the use of PROPEL; regulated toxic emissions were reduced significantly, as compared to results recorded without the use of PROPEL, indicating that greater combustion was occurring in the cylinder. The actual percent-

age results in emissions are indicated on the accompanying chart.

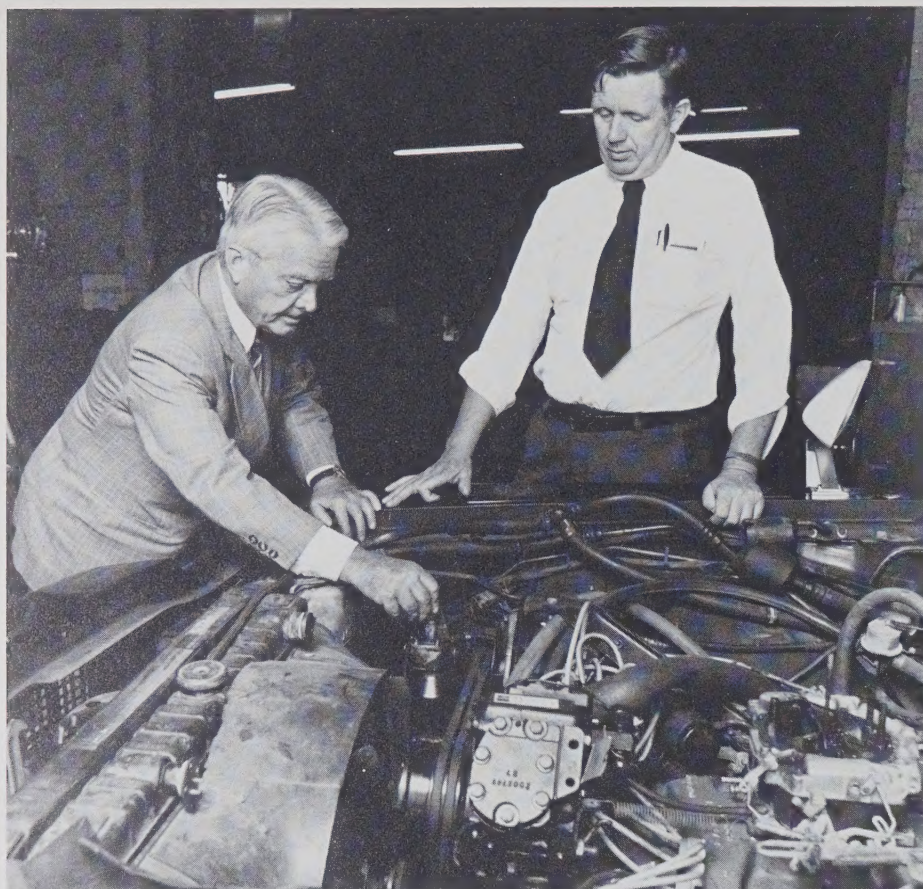
During the past ten years, numerous independent laboratory and road usage fleet tests con-

ducted on the Company's products have demonstrated PROPEL's ability to substantially increase gasoline mileage. Of these, 16 fleet tests have reported improvements

ranging from 7% to 27% increase (average 15%) in miles per gallon; five independent laboratory tests further confirmed significant fuel consumption improvements.

In a continuing effort to further substantiate performance claims, the Company has submitted the Satra test results, together with additional test data to the National Research Council in Ottawa as well as to the E.P.A. for their review and evaluation under Section 511 of the Energy Policy and Conservation Act.

North American Combustion Technology Corporation recognizes that a long-term, consistent and growing research and testing commitment is essential to the Company's success and its ability to satisfy consumer and commercial demands. For this reason, the Company has already undertaken extensive road testing programs among major fleets and plans to test engine manufacturers in 1981 in an effort to establish an even broader product performance test data base.



A.T. Rolfe, originator of the Company's unique line of combustion catalysts and James Brennan, Fleet Manager of Connecticut Limousine examine proportioning system which was used during a 100,000 mile fleet test.

NORTH AMERICAN COMBUSTION TECHNOLOGY CORPORATION

Test Results — PROPEL

documented by

Satra Automotive Emissions Laboratory, Inc.

Newark, New Jersey

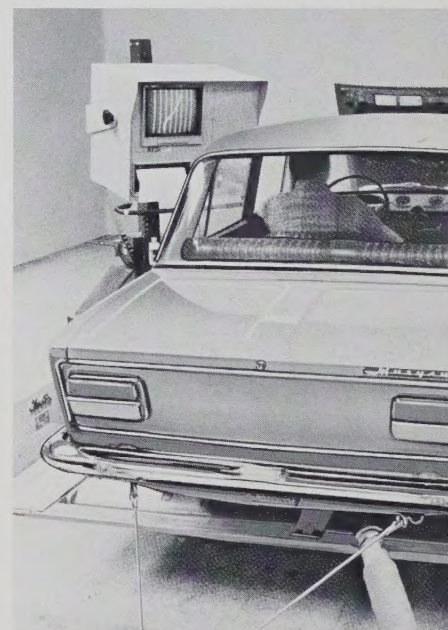
October/November 1980

TEST FLEET EMISSIONS SUMMARY

	FTP (Urban)	HWFET (Highway)
HC (Hydrocarbon)	- 17.63%	- 48.90%
CO (Carbon Monoxide)	- 21.29%	- 55.70%
CO ₂ (Carbon Dioxide)	- 3.60%	- 4.59%
NO _x C (Nitrous Oxides)	+ 1.60%	- 6.75%

FTP Federal Test Procedure

HWFET Highway Federal Economy Test



Each product undergoes extensive testing. Shown here: Independent laboratory dynamometer testing performed by Satra Automotive Emissions Laboratory, Inc., Newark, New Jersey.

SPARKTEC ENGINE PERFORMANCE ADDITIVES INC.

Sparktec commenced operations, as a Canadian Company, on April 1, 1980. The Company's major efforts, since its formation, have concentrated on the sale and distribution of its gasoline and diesel fuel additives, XG-2 and The Improver, throughout Canada.

In light of significant differences between Canada and the United States, in terms of government regulations, bilingualism, and geographic distribution of population, Sparktec's ultimate marketing strategy although similar to that pursued in the United States, focuses primarily on the specialty fleet market.

During its initial eight months of operation, the Company placed particular emphasis on growth opportunities which would enhance its credibility and competitive position in the domestic fleet market, maximize its sales and ensure the long-term success of its operations.

Sparktec's success to date, and in future, is largely dependent on the Company's concentrated emphasis on product testing. To this end, the Company conducted numerous major fleet tests in Canada during its first fiscal year. One of these test programs, conducted with the City of London (Ontario) demonstrated a 10.9% increase in miles per gallon. Another, a single research engine test performed by TES Limited, an Ottawa-based engineering firm with impeccable credentials, addressed fleet users' concerns as to whether or not the use of an additive is harmful to vehicle engines. Test results concluded "there is no adverse effect on engine components through the use of the additive . . .", eliminating all such fears. These two tests alone, enabled the Company to further penetrate the highly-competitive fleet market and schedule several major trucking, municipal

and transit fleets for testing in early 1981.

In a continuing effort to further substantiate product performance claims, Sparktec maintains close contact with the Fuels & Lubricants Division of the National Research Council. While the Council's role in the fuel additive area is not one of approval, it does act as the final arbitrator along with Consumer & Corporate Affairs in determining the validity of advertising claims.

It is significant to note that the annual consumption of gasoline

and diesel fuel in Canada is 8 billion and 3 billion gallons respectively. That, combined with greater public awareness of and increased government emphasis on fuel economy, indicates a vast market potential for the Company's products. Sparktec's achievements in its first full year of operation place the Company in an excellent position to launch its product line in a manner which will have major impact on the energy situation in Canada.



Consolidated Balance Sheet

November 30, 1980

Assets**Current**

Cash and short term deposits	\$ 764,896
Due from subscribers	400,000
Accounts receivable	14,075
Advance to supplier (note 7)	71,484
Inventories, at cost	29,966
Prepaid expenses	5,129
	<u>1,285,550</u>

Fixed, at cost (note 1(b))

Automobiles	7,996
Equipment	24,118
	<u>32,114</u>
Less: Accumulated depreciation	4,038
	<u>28,076</u>

Other

Goodwill, less accumulated amortization (note 1(c))	110,047
Deferred interest, at cost (note 4)	1,734
Incorporation expense, at cost	2,791
	<u>114,572</u>
	<u>\$ 1,428,198</u>

Liabilities**Current**

Accounts payable	\$ 197,605
Current portion of time loans (note 4)	4,015
	<u>201,620</u>
Time loans (note 4)	4,833
	<u>206,453</u>

Shareholders' Equity**Capital stock (note 5)**

Authorized

10,000,000 common shares without par value

Issued

3,335,927 shares

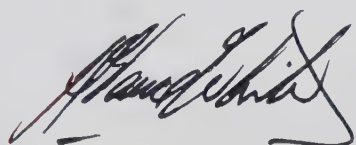
2,778,792

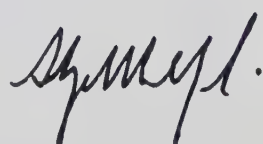
Contributed surplus (note 6)

269,388

Deficit(1,826,435)1,221,745\$ 1,428,198

Approved by the Board of Directors:


, Director


, Director

See Notes to Financial Statements.

Consolidated Statement of Deficit

For the year ended November 30, 1980

Deficit of amalgamating company assumed (note 3)	\$ 1,231,434
Loss for the year	595,001
Deficit at end of the year	<u>\$ 1,826,435</u>

Consolidated Statement of Income

For the year ended November 30, 1980

Sales	\$ 71,901
Cost of sales	49,375
Gross profit on sales	<u>22,526</u>
Other income	
Dividends, interest and net results of security transactions	270,339
Gain on foreign exchange (net)	16,543
	<u>286,882</u>
	<u>309,408</u>
Operating expenses	
Advertising and promotion	221,285
Salaries and wages	173,147
Laboratory tests	139,124
Professional services	96,998
Travel and entertainment	56,846
Amalgamation expense	35,599
Administrative and management fees	34,238
Rent	23,735
Telephone	19,900
Office expense and supplies	17,411
Miscellaneous	15,814
Prospectus preparation and financing expense	14,046
Employee benefits	9,240
Insurance	8,427
Interest expense	7,767
Registrar and transfer agent fees and expenses	4,733
Bad debts	3,855
Commission expense	3,130
Taxes, other than income	2,099
Directors' fees	750
Depreciation	4,038
Amortization of goodwill	12,227
	<u>904,409</u>
Loss for the year	<u>\$ 595,001</u>
Loss per share outstanding	17.8¢

See Notes to Financial Statements.

Consolidated Statement of Changes in Financial Position

For the year ended November 30, 1980

Source of funds

Capital stock issued (note 5)	\$2,778,792
Contributed surplus	269,388
Time loans (note 4)	4,833
	<u>3,053,013</u>

Application of funds

Loss for the year	\$595,001	
Less: Items not requiring the use of funds		
Depreciation	(4,038)	
Amortization of goodwill	(12,227)	578,736
Deficit of amalgamating company assumed		1,231,434
Goodwill (note 1(c))		122,274
Fixed asset additions		32,114
Incorporation expense		2,791
Deferred interest		1,734
		<u>1,969,083</u>

Working capital at the end of the year

\$1,083,930

Represented by working capital:

Current assets	\$1,285,550
Less: Current liabilities	201,620
	<u>\$1,083,930</u>

See Notes to Financial Statements.

Auditors' Report

To the Shareholders

We have examined the consolidated balance sheet of North American Combustion Technology Corporation as at November 30, 1980 and the consolidated statements of income, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at November 30, 1980, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Rose & Co.

Toronto, Ontario
March 24, 1981

Chartered Accountants

Notes to Consolidated Financial Statements

For the year ended November 30, 1980

1. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Consolidation

These consolidated financial statements include the accounts of the company and its wholly-owned subsidiary North American Combustion Technology Corporation U.S.A., (COMTEC) which was acquired on January 18, 1980 and has been accounted for using the purchase method.

The accounts of the subsidiary have been converted to Canadian dollars at exchange rates as follows:

Balance sheet accounts at the rate prevailing on November 30, 1980; Income accounts at an average rate throughout the period.

b) Fixed Assets and Related Depreciation

Fixed assets are carried at cost. The company follows the policy of providing for depreciation of fixed assets over their estimated useful lives (automobile—3 yrs., equipment—7 yrs.). Depreciation is computed using the straight-line method. Maintenance and repairs of fixed assets are charged to expense as incurred.

c) Goodwill

This amount reflects the net, in Canadian dollars, of the excess of the value attributed by the directors of the company, to the shares issued by the company in consideration for the shares of the subsidiary acquired, and the value of shares issued in consideration of services provided in the negotiation of the acquisition, over the book value of the shares of the subsidiary acquired and is amortized on a straight-line basis over a period of ten years commencing with the fiscal year ending November 30, 1980.

2. CHANGE OF NAME AND CONTINUATION

By certificate dated January 21, 1980, the name of AutoMark International Industries Inc. was changed to North American Combustion Technology Corporation, one of the amalgamating corporations referred to in note 3, and which, by articles of continuation effective August 15, 1980 was continued under the laws of the Province of Ontario.

3. AMALGAMATION

The consolidated financial statements give effect to the statutory amalgamation under The Business Corporations Act of Ontario of North American Combustion Technology Corporation, Medicorp Technology Limited, and 452956 Ontario Inc. into the continuing corporation; North American Combustion Technology Corporation, pursuant to an amalgamation agreement dated August 25, 1980, and the granting of a Certificate of Amalgamation on September 30, 1980.

The amalgamation is accounted for on the basis of combining the assets and liabilities of the amalgamating corporations at their carrying value in each corporation's records. The income of the combined corporation includes income of North American Combustion Technology Corporation for the year ended November 30, 1980 and of Medicorp Technology Limited for the nine months ended September 30, 1980.

The amalgamation agreement provided that the authorized capital of the amalgamated corporation would consist of 10,000,000 common shares without par value, of which an aggregate of 3,202,594 shares would be issued on the basis of one share of the amalgamated company in exchange for each outstanding share of each of the amalgamating companies. The amalgamation agreement further provided that an aggregate of 466,667 of the shares issued upon amalgamation be donated to the treasury of the amalgamated company for cancellation.

In accordance with the requirements of the Business Corporations Act of Ontario the issued capital of the amalgamated corporation, after adjustment for the donated shares, is equal to the aggregate of the issued capital of each of the amalgamating corporations immediately prior to the amalgamation.

4. TIME LOANS

On January 11, 1980, the company obtained two bank loans to finance the purchase of two automobiles. The loans and security agreement require 36 monthly payments commencing February 20, 1980. In April 1980, the company also purchased office equipment under an instalment loan agreement requiring 36 monthly payments. The company has recorded as deferred interest \$1,734 relating to the interest payable on the loans and is amortizing this amount as payments are made on the loans on a straight-line basis.

5. CAPITAL STOCK

a) North American Combustion Technology Corporation— Prior to amalgamation (See notes 2 and 3)

	Shares	Consideration
Issued in consideration for shares of subsidiary	700,000	\$ 105,000
Issued in consideration for services rendered	100,000	15,000
Issued for cash	1,300,001	230,001
Issued and outstanding prior to amalgamation	2,100,001	\$ 350,001

b) Subsequent to amalgamation

Shares issued upon amalgamation (note 3)

North American Combustion Technology Corporation	2,100,001	\$ 350,001
Medicorp Technology Limited	992,593	1,468,778
452956 Ontario Inc.	110,000	29,401
	3,202,594	1,848,180
Less shares donated to treasury for cancellation	466,667	269,388
	2,735,927	1,578,792
Issued for cash subsequent to amalgamation	600,000	1,200,000
	3,335,927	\$2,778,792

c) Share purchase warrants are outstanding enabling the holders thereof to purchase 300,000 common shares of the capital of the company at a price of \$3 per share if exercised on or before November 7, 1981, and at \$4 per share if exercised thereafter, but on or before November 7, 1982.

d) Pursuant to the terms of an employment contract, options have been granted to the President of the company to purchase an aggregate of 180,000 shares of the capital of the company at a price of \$1.00 per share exercisable as to 30,000 shares every six months on a cumulative basis.

6. CONTRIBUTED SURPLUS

Contributed surplus arose from the donation to the treasury for cancellation of 466,667 shares of the capital of the company in accordance with the Statutory Amalgamation effective September 30, 1980 (note 3).

\$ 269,388

7. AGREEMENT WITH SUPPLIER

a) Under the terms of a November 19, 1979 amended agreement with The Rolfite Company, the company will become, upon certain conditions, the exclusive licensee of Rolfite and its subsidiary for the marketing, sale and distribution of Rolfite chemical fuel additive products to the home heating, fleet and automotive aftermarkets. The products are manufactured solely by Voltax Company of Bridgeport, Connecticut for The Rolfite Company. These products are covered under several patents owned by The Rolfite Company, the most significant of which is a United States patent that is effective through 1986.

To maintain its exclusivity under the agreement, the initial term of which is eight years, the company must purchase through a Rolfite subsidiary, Rolfite products in U.S. dollar amounts not less than the following minimums subsequent to the date of execution of the agreement:

First six month period	\$ 100,000
Second six month period	200,000
Third six month period	300,000
Fourth six month period	400,000
Fifth six month period	500,000
Sixth six month period	500,000
Fourth twelve month period	1,500,000
Fifth twelve month period	2,100,000
Sixth twelve month period	2,800,000
Seventh twelve month period	3,500,000
Eighth twelve month period	5,000,000

Effective January 6, 1981, the first six month period purchases have been waived by Rolfite. The second six month period purchases have been extended to begin March 31, 1981. All subsequent six month periods are also extended from March 31, 1981. The company has made purchases of approximately \$71,000 (U.S.) through November 30, 1980 against the second six month period purchase requirements of \$200,000 (U.S.).

The above purchases, starting with the third six month period are to be indexed against inflation by reference to the U.S. Government index of finished goods prices as of November, 1979.

Should the company not meet its purchase commitments under the agreement, Rolfite may elect to terminate this exclusivity. Should this occur, the company can continue operations with Rolfite as a non-exclusive distributor by ordering not less than \$100,000 (U.S.) in product purchases in each six month period following such loss of exclusivity. These non-exclusive product purchases also are to be indexed for inflation. If the company fails to make the necessary purchases, The Rolfite Company has the right to cancel the non-exclusive relationship by giving the company ninety days notice in writing.

In addition to the above purchases, the company must make certain payments to The Rolfite Company to maintain the exclusivity granted the company in the geographical markets designated under the agreement. The first payment of \$50,000 (U.S.) was paid on December 13, 1979. This amount represents a prepayment for inventory and is an advance against the first product purchases that are to be made pursuant to the agreement. A second \$50,000 (U.S.) prepayment of inventory retained and finalized the exclusivity for the United States and Canada and kept in effect the option for the exclusivity of the nine nations known as the European Economic Community (EEC).

Two additional payments of \$50,000 (U.S.) each, at six month intervals subsequent to the second prepayment, will grant the company the exclusivity of the EEC territory on the third payment and retain and finalize this exclusivity with the fourth and final payment.

Under the agreement, the company has the option to obtain from Rolfite the exclusive right to market, sell, or distribute to the home heating market. The company has notified Rolfite, as required under the agreement, in writing of their intention to exercise the option and increase the six months sales quota by 25%, effective beginning the third six month period.

b) Pursuant to the terms of an agreement dated April 2, 1980 the company has assigned all its rights, interest and obligations in the agreement detailed in Note 7(a), to the marketing, sales and distribution of Rolfite products in Canada, to Sparktec Engine Performance Additives Inc. in consideration for the payment to the company of a royalty of 15% of the U.S. dollar costs of all goods purchased from Rolfite by Sparktec.

8. TRANSACTIONS WITH RELATED PARTIES

a) As disclosed in note 7(b) the company has entered into an agreement with Sparktec Engine Performance Additives Inc. (Sparktec).

Certain of the directors and officers of the company are also directors and officers of Sparktec.

As at November 30, 1980, Sparktec had advanced, for the benefit of the company an amount of \$16,431 (U.S.) to a supplier of the company. This advance was repaid to Sparktec subsequent to November 30, 1980.

b) During the year ended November 30, 1980 an amount of approximately \$79,000 (U.S.) was paid for services rendered to an advertising firm of which the President of the company was an officer.

9. STATUTORY INFORMATION

Remuneration of directors and senior officers (including the five highest paid employees) during the year ended November 30, 1980 amounted to \$160,807.

10. COMPARATIVE FIGURES

The company was incorporated on October 3, 1979. Since the company had no active operations from date of incorporation to November 30, 1979, comparative figures have not been provided.

11. INCOME TAXES

There is no provision or liability for income taxes due to the net operating losses incurred by the company and its subsidiary for the year ended November 30, 1980.

At November 30, 1980, the following approximate amounts are available to reduce income for income tax purposes in future years:

Parent company

Available until November 30, 1985

\$ 40,500

Subsidiary company

Available until November 30, 1987

\$600,599

12. SUBSEQUENT EVENT

Negotiations have commenced to effect, subject to shareholder approval, a statutory amalgamation between the company and Sparktec Engine Performance Additives Inc.

NORTH AMERICAN COMBUSTION TECHNOLOGY CORPORATION

Corporate Data

Directors

R. Bruce Briggs

Toronto, Ontario (Canada)
Stockbroker, Burns Fry Ltd.

Dieter D. Doederlein

Toronto, Ontario (Canada)
President, Sparktec Engine Performance Additives Inc.

Stephen J. Headford

Toronto, Ontario (Canada)
Lawyer/Mining Executive, Mid-North Engineering Services Limited

Monroe J. Lawrence

Westport, Connecticut (U.S.A.)
President, COMTEC

Donald J. MacDonald

Wynnewood, Pennsylvania (U.S.A.)
Vice-President, Sales, COMTEC

Richard L. Matthews

Morristown, New Jersey (U.S.A.)
Chairman of the Board and
Chief Executive Officer, COMTEC

H. Vance White

Toronto, Ontario (Canada)
President, Dickenson Mines Ltd.

Officers

H. Vance White

Chairman of the Board

Richard L. Matthews

President and Chief Executive Officer

Monroe J. Lawrence

Vice-President, Marketing

Donald J. MacDonald

Vice-President, Sales

Stephen J. Headford

Secretary-Treasurer

Subsidiary

**NORTH AMERICAN COMBUSTION
TECHNOLOGY CORPORATION
U.S.A., (COMTEC)****Directors & Officers****Richard L. Matthews**

Director, Chairman of the Board and
Chief Executive Officer

Monroe J. Lawrence

Director, President

Robert S. Ruotolo

Director, Secretary-Treasurer and
and Vice-President, Finance

Donald J. MacDonald

Director, Vice-President, Sales

Canadian Distributor

Sparktec Engine Performance Additives
Inc.

Offices

Head Office

North American Combustion
Technology Corporation
Suite 600
65 Queen Street West
Toronto, Ontario
M5H 2M5
(416) 361-0402

Subsidiary Office

North American Combustion
Technology Corporation
U.S.A., (COMTEC)
Graybar Building
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Canadian Distributor

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Bankers

Canadian Imperial Bank of Commerce
Toronto, Ontario
Chemical Bank
New York, New York

Registrar & Transfer Agent

National Trust Co. Ltd.
Toronto, Ontario

Legal Counsel

Salter, Apple, Cousland & Kerbel
Toronto, Ontario
Battle, Fowler, Jaffin and Kheel
New York, New York
Leopold, Gross, Sommers & Israel, P.C.
Brooklyn, New York

Auditors

Touche Ross & Co.
Toronto, Ontario
Price Waterhouse & Co.
Stamford, Connecticut

Trading of Stock

The Company's shares trade over-the-counter Toronto.

CANADA:

PROPEL™ and **XG-2™** are Trademarks of
Sparktec Engine Performance Additives
Inc.

The Improver® is a Registered Trademark of
Sparktec Performance Additives Inc.

UNITED STATES

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Combustion Technology U.S.A. (COMTEC)

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